Case 4: Japanese Cross Border M&A and German Target Employee Alienation Issues

Ralf Bebenroth and Roman Bartnik

Introduction to M&A

Mergers and Acquisitions (M&A) occur frequently all over the world and about 70% are categorized as cross-border deals with the aim of multinational firms to undertake investments in foreign countries (Peng 2008). There is evidence that cross border deals are more difficult to successfully realize than domestic deals because employees not only experience a different organizational culture but also have to interact with a different national culture (Chung et al. 2014). The rule of thumb is that integrations become increasingly difficult as cultural distance and differences increases between the bidder and the target in a M&A context. Most of the studies take it for granted that employees are heavily affected by direct involvement in a cross border acquisition (e.g. Chung et al. 2014; Nemanich and Keller 2007). Yet, indirect effects of social identification can also affect the lack of direct interaction between employees from both parties (the acquirer and the acquired). This case study deals about a Japanese steelmaker who overtook a German engineering firm specializing in waste disposal business. Challenges in the post-merger integration and especially between the expatriated Japanese managers to the German subsidiary and the German employees are discussed.

R. Bebenroth (✉)
Kobe University, Kobe, Japan
e-mail: rbeben@rieb.kobe-u.ac.jp

R. Bartnik
Cologne Business School, Cologne, Germany

A. Malik (ed.), *Strategic Human Resource Management and Employment Relations*, Springer Texts in Business and Economics,
https://doi.org/10.1007/978-981-13-0399-9_18

Alienation Issues

Integration can be more difficult when the merging firms differ strongly in a number of aspects such as language, culture, cultural distance and so on. Research literature offers evidence that a sense of continuity plays an important role in employees' feelings about the post-merger process, e.g. see Jetten et al. (2002) and Bartels et al. (2006). In this context, it is important for target employees to fully understand the intentions of the bidder. Recent studies have focused on differences in culture and the impact of buyer firm's status. (Björkman et al. 2007; Yildiz 2016). Bauer et al. (2015) look at the role of cultural similarity as a moderator and find beneficial effects of cultural similarity for innovation-driven M&As. Relatedly, Ahammad et al. (2014) find that cultural similarity mediates the relationship between knowledge transfer and performance. Regarding the effect of status, Yildiz (2016) finds that similarity between buyer and target firm promotes benevolence-based trust, whereas higher status of the acquiring firm promotes competence-based trust and out-group favoritism. The present case study sheds light on a cross border acquisition and focuses on the effects of rather less involved employees. We present here an in-depth study on the dyad of buyer-target firms. Notably, the bidder firm is very hesitant to directly impact operations at the target. The target firm employees thus have a rather weak bond with the bidder firm (Bartels et al. 2006).

Social Identity Theory

Our case study is partly grounded in the Social Identify Theory advanced by Tajfel and Turner (1986). It starts from the presumption that a (social) group membership is important in the creation of a self-concept of people (Bartels et al. 2006). People perceive themselves as sharing the same fate with other people in their organization (Mael and Ashforth 1992). That means they identify with their organization. Meal and Ashforth defined it as: "perception of oneness with or belongingness to an organization, where the individual defines him- or herself in terms of the organizations(s) in which he or she is a member" (p. 104). Social identity theory offers an explanation of why employees often react so negatively to organizational changes such as I mergers or acquisitions. Employees affected by a M&A feel threatened because their stability and continuation is endangered (Hogg and Terry 2000; Bartels et al. 2006). However, some of the employees would be part of the in-group and supporters while others would be in the out-group facing difficulties and not having support from the new firm.

Japanese Steel Maker and German Engineering Firm: Case Study

The present M&A case study involves one of the biggest Japanese steel makers in the world. In December 2014 a medium sized German firm in the waste energy power plant production industry with 195 employees in Duisburg was taken over by the Japanese firm. The deal can be considered as a horizontal integration in nature, which means that the Japanese bidder has experience in the same field of business (besides producing steel). Positive about a horizontal acquisition, the Japanese bidder can support the target in strategic ways and with its knowledge. In a negative sense, sometimes the bidders have to let go of employees of the target firm as some jobs become redundant. It is also to mention, that before the Japanese investor overtook the firm, it was previously held for many years by several European financial investors. With the acquisition, the German target's management intended to realize several benefits. It aimed of becoming more globalized as a result of the deal. There is a steadily increase in competition in the European market for engineering solutions in waste disposal industry and for the establishment of waste energy power plants from biomass and gas. In spite of attractive (new) markets in Asia, the German small firm could not bid by themselves as they lacked human resources necessary. One of the German managers was quoted saying: "we could not make it to China without any support from outside. We just did not have anyone to introduce us to these markets".

The Japanese bidder side was interested in competing with the German technology of waste disposal energy power plants in Asia. In contrast, the German target firm thought of receiving Asian market access for their energy plant engineering solutions provided by the Japanese side. In this context, the technical leadership of the German target for waste energy power plant was a trigger for challenges from the overtaking the firm. Another German manager, Schmidt is quoted as: "They took our technology and we (the Germans) are left out". Interviews with German top management showed that the German management intended to receive bigger projects with a financially and more solid ground by the Japanese investors. For this, the Japanese investor were seen by the German target management as strong financial parent to be able to compete for bigger projects in Asia. Furthermore, it was attractive for the German firm to have Japanese engineers with especially experience and language skills in other Asian countries. After about a year, German management sees themselves as being almost wrongly informed. "They (the Japanese contact of the bidder firm) told us at the beginning that we go together to China to sell our (German) solutions; now they go by themselves". Also, even the Japanese headquarter gave the German target firm high autonomy for the European market. However, many business changes decided at the Japanese headquarters and the Germans then only had to run it. A surprise was that the Japanese headquarter asked the Germans themselves to come up with ideas to implement synergies. Besides strategic issues, communication issues were also mentioned to be a source of problems faced by the German managers.

Communication Difficulties

After the acquisition was done, the Japanese bidder firm moved their 20 Japanese employees from other European cities to the target firm. Aim was to establish the new European headquarter at the target firm location. However, even after 6 months, there was virtually no contact between the Japanese managers and target employees as all Japanese were located in the building next to the German firm – and even the dining hall for employees is separate (for Germans and Japanese) so that there is hardly any communication possible.

Mr. Meier from the German side: “I never see any Japanese around. For what did they take us over?” Also, at interviews (6 month after the acquisition), German top managers complained about a lack of communication from the Japanese bidder to the German target. Mr. Schulz (from the German side): “The Japanese was talking last week to all of us here in this room (where the interview took place), but I have the feeling no one understood what he was telling us (the Germans).

Japanese Expatriates to German Target Firm

Expatriates are managers sent to foreign subsidiaries for a limited time. This strategy is a common way for multinational firms to internationalize all over the world. Also the Japanese steel maker sent two additional (English speaking) Japanese managers form the Japanese headquarters to the target. These two managers even share their office at the same floor of the German target top management (in contrast to all the others who stay at the neighboring building). However, target management still complains that there is not enough information flow. Feeling at the target top management is that the Japanese bidder uses their technology in the Asian market – without any exchange given to them in return. Mr. Yamamoto (Japanese sent top manager) was asked about the speech he gave a week earlier to the Germans (mentioned above). He is quoted as: “I clearly told the German managers what my (Japanese) headquarter wants them to do”.

It is clear that it is not only the language but also the behavior of people what brings frictions and problems. Japanese managers were satisfied with their information flow to the new venture. Mr. Yamamoto: “I gave all German managers lots of information.” He admits at the same time: “The problem is that I am just transferring what the head office tells me. That means, decisions are taken in Tokyo – and I tell this to the German managers.” The German managers on the other end hand, however, want to be more involved in decision making, and want to know in detail who the decisions took at the headquarters.

Due Diligence

A successful acquisition depends on a careful ex-ante investigation about chances and weaknesses of the target firm. This investigation is called “due diligence”. Common are due diligences in different areas, e.g. in finance, in environment and in human resource (Hassan et al. 2016). Hassan et al. (2016) look at one potential reason for M&A failure: the business evaluation process. How do the components involved in this process influence the outcome of M&As? The authors find that careful assessment and selection of target firms can improve M&A performance.

Interestingly, the German managers mention that target firms are often not reasonably assessed due to acquiring firms reluctance to use professional outsiders for this and the vague definition of valuation parameters. Moreover, literature finds that "the professionalism [of the evaluation] has also been tailored to suit the excitement of the management to enter into the M&A transaction." (Hassan et al. 2016).

In this case study, the due diligence process was conducted by a professional law firm, but only lasting a few weeks in time. The German top management was surprised by this action because lawyers from big consulting firms are not familiar with peculiarities of the given industry (in this case, of waste disposal plants). Mr. Meier: "They did a due diligence with us in a week – and did not even ask about what we have in our (product) pipeline!" That means synergies were not satisfactorily investigated at all. Also, just a handful of target managers were involved into the deal. No others, even team leaders did not know anything about the deal before until it was signed.

What was seen as an efficient way to conduct business (by the Japanese management) at the first glance, turned out to become a more serious problem after the deal was done. In the first few months after the deal, the German management wondered what the Japanese want them to do. Mr. Schulz: "I have no glue what they want us to do in the future". There is no clear concept offered yet by the Japanese side, of how synergies should be realized. In this, German managers feel frustration because Japanese side does not tell them where and when they want them to go and how that future is to be shaped.

Case Study Questions

1. How autonomous should the target be left after the merger deal?
2. Why are problems expected to increase in case the target employees have a low contact with the bidder firm?
3. To what extent should the Japanese business system be adopted to suit the German business context?
4. Identify the difficulties in communication between bidder managers and target employees that are apparent in the case study?
5. How fast should bidder managers move into the target?
6. What expatriate behavior is best for Japanese managers who are sent to Germany?

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